

# BUSINESS TAX REFORM

## FRAMEWORK

- Guiding Principles
  - Broad base and low rates to minimize economic distortions.
  - Destination based tax to keep export businesses competitive.
  - Simplify business taxes by repealing complex corporate income tax and replacing with one page corporate activities tax form.
  - Maintain balanced treatment for different business entities by allowing partial credit for pass-throughs.
- Establish corporate activities tax 1-1-18
  - Based on gross receipts derived from destination based sales in Oregon.
  - All business entities are subject to the corporate activities tax.
  - Business entities with annual gross receipts less than \$150,000 in Oregon are not required to file a corporate activities tax return.
  - Businesses with gross receipts greater than \$150,000 but less than \$1 million must file a return and pay a \$250 flat amount.
  - Businesses with annual Oregon gross receipts greater than \$1 million are subject to a corporate activities tax equal to \$250 plus \_\_\_\_\_% of gross receipts greater than \$1 million.
  - Financial institutions are subject to the corporate activities tax with the definition of gross receipts in Oregon determined by rule.
  - Gross receipts derived from the sale of motor fuel is calculated separately with the revenue placed in the Highway Fund.
- Exemptions from the Corporate Activities Tax
  - Government transactions.
  - Donations received by non-profit organizations.
  - Transactions among closely related business entities.
  - Gross receipts of qualified distribution centers.

- Credits
  - Pass through entities are allowed a credit equal to \_\_\_\_\_% of corporate activities taxes paid at the entity level.
- Repeal of Corporate income tax starting with 2018 corporate tax year
  - Unused corporate tax credits can be applied to corporate activities tax liability and carried forward up to three years.
- Tax Base Description
  - Estimated businesses below \$150,000 threshold=100,000
  - Estimated number of filers paying \$250 flat amount=37,000
  - Estimated filers paying corporate activities tax rate =18,000
  - % of corporate activities tax paid by filers with gross receipts above \$25 million=74%
  - % of corporate activities tax paid by filers with gross receipts above \$100 million =55.7%
- Strategies to minimize pyramiding
  - Keep rate low and base broad.
  - Exempt transactions among closely related business entities.
  - Exempt qualified distribution centers.
- Personal income tax adjustments targeted at low income households
  - Expand earned income tax credit.
  - Lower bottom personal income tax rates.
  - Increase standard deduction.
  - Increase personal exemption credit.

LRO: 5-2-17